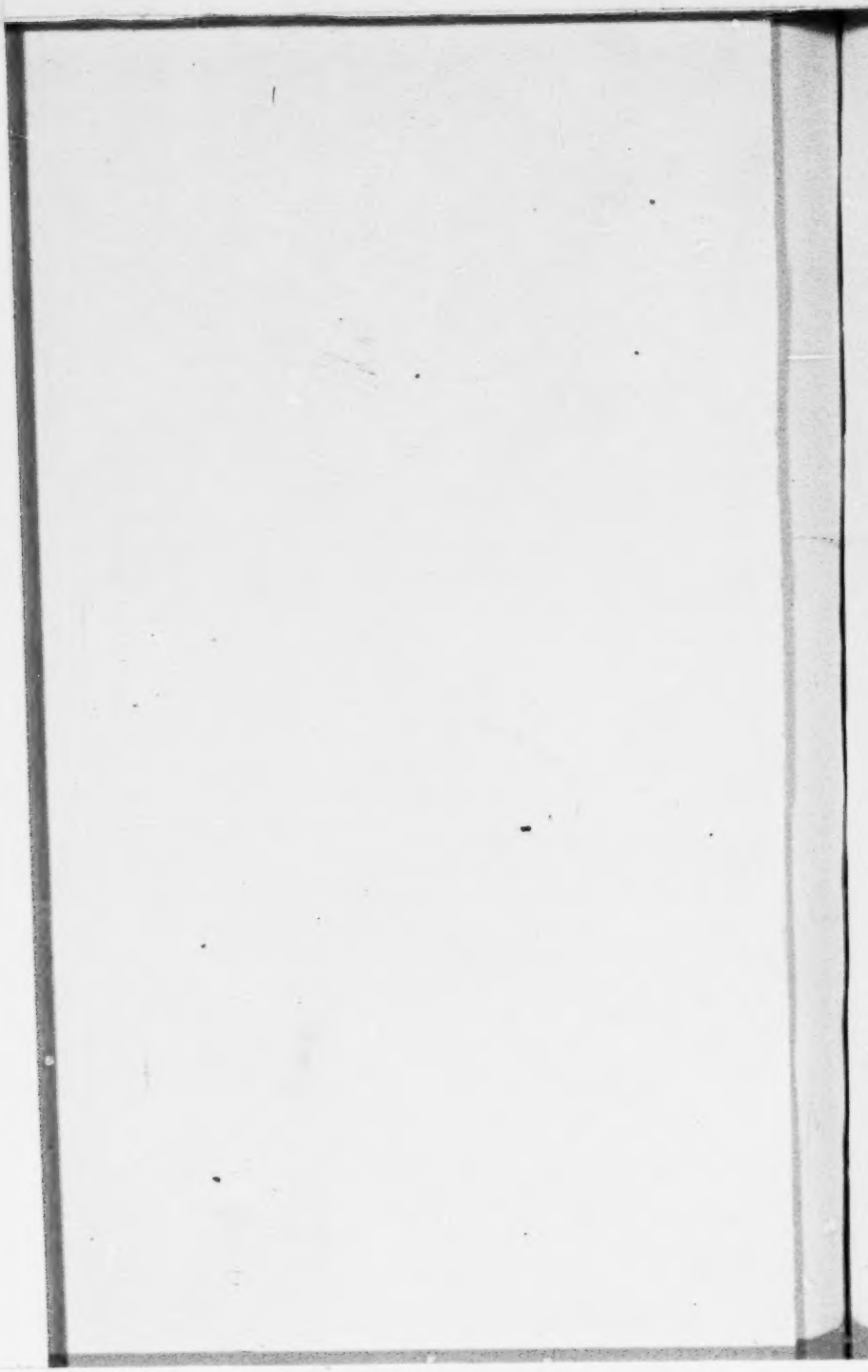

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944.

HARTFORD-EMPIRE COMPANY, *et al.*,
Appellants,

v.

UNITED STATES OF AMERICA,
Appellee.

Nos. 2-7.

Appeals From the District Court of The United States
For the Northern District of Ohio, Western Division

MEMORANDUM OF HARTFORD-EMPIRE CO. ON GOVERNMENT PETITION FOR CLARIFICATION OR RECONSIDERATION.

JOHN T. CAHILL,
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THURLOW M. GORDON,
STUART S. WALL,
JERROLD G. VAN CISE,
Of Counsel.

February 9, 1945.

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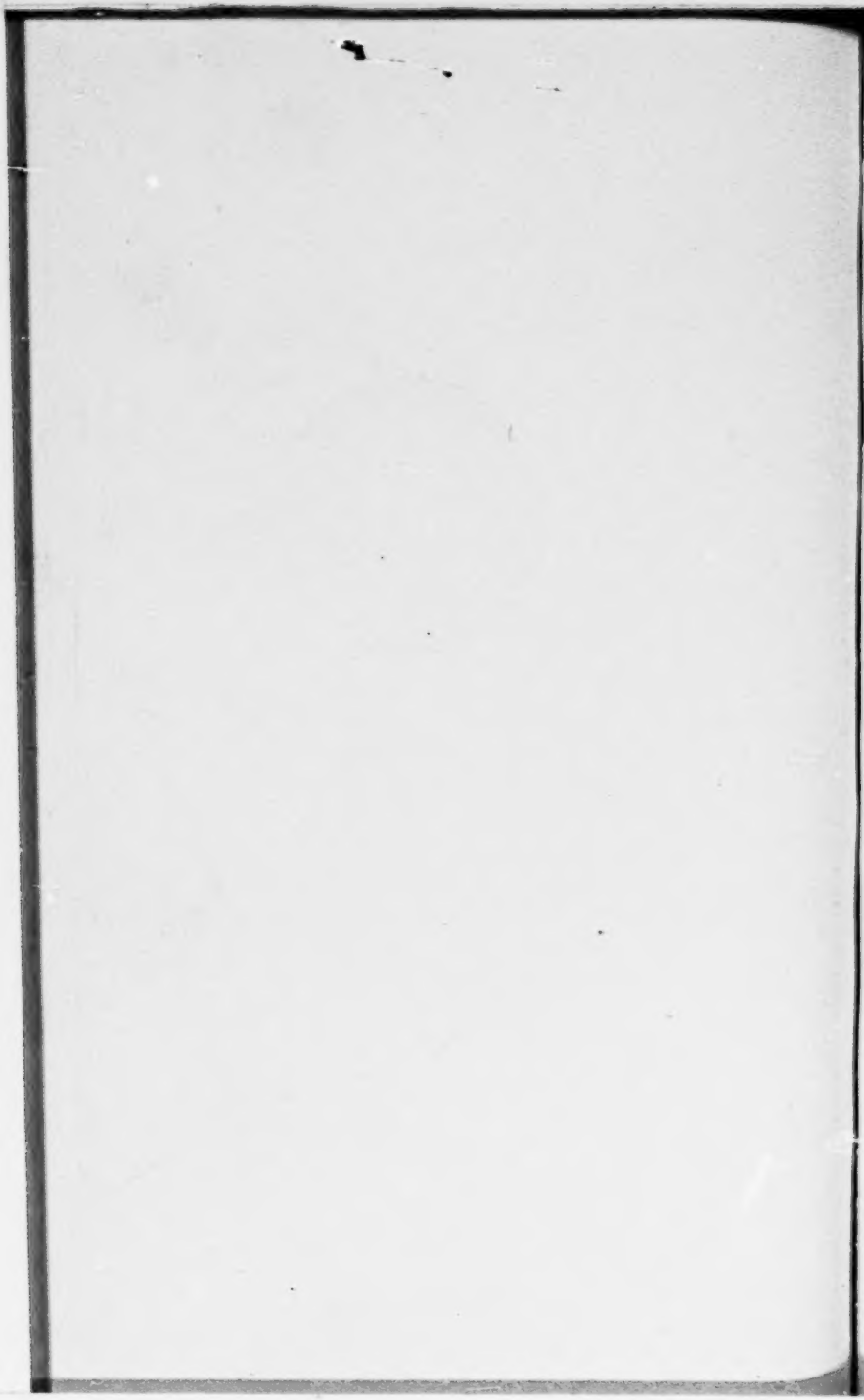

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The Government's petition is unnecessary.

This appeal has twice been argued before this Court. Twenty-nine briefs and twenty-one hours of oral argument have been devoted thereto. All attendant issues have been exhaustively discussed. The opinion of this Court has disposed of, with finality, both the appeal and these issues.

The defendant Hartford, nevertheless, in view of the fact that the Government's petition primarily affects this company, will comment briefly upon the subject matter discussed therein. The other defendants involved, except in so far as they file supplemental statements, will rest upon the briefs on reargument previously submitted herein and the opinion of this Court subsequently entered.

I. Earmarked Royalties.

Petition.

The Government in its petition initially criticizes the opinion of this Court for permitting the retention by Hartford of its earmarked income (Petition, pp. 2-8).

This issue, however, has been fully briefed and argued —both on the original argument (Hartford Main Brief, pp. 145-147 and Government Main Brief, pp. 408-409) and on the subsequent reargument (Joint Brief on Reargument, pp. 68-73, Government Brief on Reargument, pp. 47-53, and Hartford Reply Brief on Reargument, pp. 16-21)—and has been decided adversely to the Government.

Further argument, it is submitted, is unwarranted.

Discussion.

Hartford has pointed out in the joint brief of appellants that it had voluntarily abandoned in 1940 all practices objected to by the Department, that its licenses thereafter had provided licensees with inventions and machinery of great value at uniform royalties and without restrictions, that Hartford during this period had been directed to perform under these agreements at tremendous expense, that the licensees enjoyed profitably the benefit of these agreements, including the use of machines developed and owned by Hartford, and that it would be grossly inequitable to force Hartford thus to perform and yet to permit the contracting beneficiaries of this performance to avoid payment therefor (Joint Brief on Reargument, pp. 68-73).

This Court has reviewed these facts in its opinion. It has noted the reduction of Hartford's royalties to their present standard rate which the Department had not challenged as unreasonable, the removal of all objectionable restrictions

upon the use of Hartford's machines, and the resulting free conditions in the industry. It has declared that the Sherman Act does not authorize the confiscation of patents or the imposition of penalties in a civil action. It has thereupon ruled that, if Hartford has not since violated the anti-trust laws or the decree as amended, it may have its earmarked income received for its performance of its contracts during the receivership (Opinion, pp. 14-17).

The issue of Hartford's royalty income has thus been duly considered and decided. Further discussion thereon is unnecessary. Hartford accordingly will not attempt here to restate all of its arguments previously advanced on this issue, but will content itself with merely setting the record straight on certain factual assertions made by the Government:

(a) *Payments for benefits voluntarily sought and received:* The licensees have not been coerced by the Receiver into unwilling relations with Hartford as suggested by the Government (Petition, pp. 3-4). Their payments have been made for benefits voluntarily sought and received. The Receiver emphasized in his Report, filed by the Department in this Court, that the licensees continued to ask for and receive the benefits of the Hartford leases and that the few licensees objecting to pay therefor did so—not because they did not want the benefits—but because they had erroneously assumed from the lower court opinion that Hartford's patents were to be confiscated and that henceforth they were to receive these benefits for nothing.

Thus the Receiver pointed out on pages 9-10 of his Report that these licensees sought to refuse payments because they wanted to receive "immediately" the free use of Hartford's inventions, machines and patents provided by the lower court's opin-

ion, and that he was able to persuade them to pay only when he declined otherwise to furnish these benefits, desired by them, in the form of additional Hartford "equipment".

(b) *Payments for adequate consideration:* The licensees have not made these payments for inadequate consideration as claimed by the Government (Petition, pp. 4-5). They have received full value for their money. The Receiver explained in his Report at pages 16-21 that the licensees made their payments for the full and unrestricted use of Hartford's patented machines, services, engineering, research and development. The Department has stressed on many occasions the number and strength of the patents thus licensed (see any of the Government's briefs) and has stipulated to the value of Hartford's machinery and engineering (R. VI, 4467; Ex. H-6152, R. IX, 6738, R. XII, 8571 at 8595).

The value of Hartford's machines, it should be noted, does not reside in the patents alone. These machines are the product of an enormous amount of engineering development work which is wholly independent of the patents themselves. This development work represents an investment by Hartford of many millions of dollars over a period of nearly 30 years.

Of the patent and other considerations provided to licensees, the Department is able to point to only four of an alleged 755 Hartford patents as purportedly tainted with fraud (Government Brief on Reargument, pp. 108-12, 130-31, 198) and even these four are not attacked in this action as invalid (Opinion, p. 19; R. II, 901; R. VI, 4288; R. VIII, 5634-7). This Court's opinion, of course, does not in any way interfere with the prosecution of any cause of action by the Government or anyone else for such alleged fraud; it merely refrains from burdening this much

litigated case with collateral issues stipulated out of the case.

(c) *No penalization or discrimination possible:* No licensee, whether small or large, has been penalized by making its payments as contended by the Government (Petition, pp. 3, 7-8). The Receiver stressed in his Report at page 19 that the Hartford contractual performance was of particularly vital assistence to the small licensees. Numerous small licensees have filed *amicus curiae* briefs in this Court strongly attacking Paragraphs 10-20 of the judgment below—providing for the receivership and confiscation of Hartford's income—and stressing that Hartford is essential to their existence.

Both small and large licensees, moreover, have done a very profitable business during the period here involved—by aid of Hartford's performance.

Hazel-Atlas, it should be added, is not given any advantage over other Hartford licensees by the opinion of the Court. The payments under the Hartford-Hazel-Atlas cross-license agreement, which the lower court impounded, go back to the parties who paid them (Opinion, p. 17). The Court is then authorized to reform any contract if necessary to avoid any discrimination (Opinion, p. 23).

(d) *Knox:* The Knox *amicus curiae* briefs, incidentally, do not represent the views of a small licensee. The Knox companies are merely subsidiaries or affiliates of one company—which has been an active member of GCA since its organization with its President in recent years a director thereof (R. III, 1543-51)—and which is recognized by the Government itself to be the fourth largest manufacturer in the industry (R. VIII, 5851, 5912).

Knox, moreover, has used Hartford's inventions, equipment and services under contracts which have been free of any restrictions throughout this period

(Ex. H-5769, R. XIII, 9644, fols. 20036-45); has employed not merely the Peiler "plunger" but many other Hartford patents in its operations (Ex. 151, Sched. D (List of Patents), R. XII, 8837, fols. 16960-1); has never once sought to rescind the Hartford licenses providing these benefits; and has merely objected in its letter to the Receiver (printed in its last brief) to paying for—as distinguished from receiving—those benefits.

The portion of the Receiver's report quoted in the Department's petition, at pages 24-25, shows that the Knox group asked for and received additional equipment from Hartford during the very period in question. It paid these royalties for the purpose of obtaining the benefit of performance by Hartford, and it now seeks—entirely inequitably—to get back its payment therefor.

(e) *Equitable considerations:* Equity has clearly been done in permitting Hartford to keep its earmarked income. Hartford thereby is preserved as a solvent research, development and engineering company to serve the industry and the public, and its licensees merely pay uniform royalties not attacked as unreasonable (R. VII, 5331) for benefits desired and used profitably by them to make far more than the royalty payments. Grave injury would only occur if Hartford were not permitted to keep its income, because then a company contributing greatly to the growth and development of the art of the industry would be disastrously penalized, and gratuitous windfalls—principally beneficial to the large companies making the largest royalty payments—would be given to contracting licensees although they had desired and received the benefits of the Hartford contracts.

Every consideration of equity and mutuality urges that, when Hartford has been directed to perform, the other contracting parties—voluntarily receiving

the benefits of this performance—should similarly perform.

(f) *Reargument of Morton Salt issue:* The Department frankly discloses that it is here once more attempting to urge that the *Morton Salt* case authorizes the penalty of confiscation in a civil suit brought by the Government (Petition, pp. 5-7). It asserts that a company which ceased every practice objected to by the Department in 1940 may not charge, after two years have elapsed, what the Government concedes to be reasonable royalty payments (R. VII, 5331) for its patents, machines and services. This Court after full consideration has squarely ruled that the *Morton Salt* case does not authorize such novel forfeitures in anti-trust proceedings (Opinion, p. 20), and accordingly further discussion thereof would seem to be here unnecessary.

For a more complete treatment of this question of Hartford's earmarked income, see the Joint Brief on Reargument, pages 68-73, and the Hartford Reply Brief on Reargument, pages 16-21.

II. Interim Period.

The Petition.

The Government in its petition next objects to the opinion of the Court as allegedly ordering the vacating of the present judgment without providing for the interim pending the entry of a new judgment (Petition, pp. 8-10).

The opinion, however, is clear on interim procedure.

Discussion.

The opinion rules that the Receiver for Hartford should wind up his receivership (Opinion, p. 17). This obviously contemplates an interim order, following vacation of the

present judgment, to permit the Receiver to function pending the winding up of the receivership. The receivership could not be wound up readily until the new judgment is entered, and accordingly the interim order would unquestionably continue the receivership until that event, provided it occurs within a reasonable time.

The opinion then rules that the judgment should be vacated (Opinion, p. 35). This is merely a form of staying the unauthorized injunctive provisions of the judgment until new provisions conforming to this Court's opinion can be drafted. The lower court had already stayed these injunctive provisions until this Court should act thereon, and this Court is merely continuing the stay until its opinion can be made effective.

The Department, in objecting to the Court's opinion, is seeking to have all of the unprecedented punitive provisions of the present judgment put into effect without any stay—despite this Court's ruling thereon—at least during the interim period between the receipt of this Court's mandate and the entry of the final judgment. This would have a disastrous effect upon the defendants, since many of the provisions of the lower court's judgment must be revised to conform to the relief prescribed by this Court.

The fear of the Department that the defendants will flout the rulings of this Court during the interim period, pending the entry of the revised judgment, scarcely merits an answer. Every consideration of reason and respect for the Supreme Court would insure conformity to the rulings of this Court once it has spoken.

III. Suction Machines.

Petition.

The Government in its petition claims that the opinion limits the judgment in a manner to exclude suction (Petition, pp. 10-11).

The opinion does not so limit the judgment.

Discussion.

The opinion provides that the judgment should not be extended broadly to glass-making machinery in the manner now defined in the judgment, but should be limited instead to the feeders, formers, stackers and lehrs (Opinion, pp. 21, 23, 26, 33) involving the combination of patents condemned by the Court and any future improvements thereon.

No claim is made by any defendant that the opinion did not thereby intend the judgment to include "suction" machines (Opinion, pp. 3, 5, 7, 9, 13, 14).

IV. Repossession of Machines.

Petition.

The Government asserts that the opinion permits Hartford to repossess its leased machinery in a manner to defeat the judgment (Petition, pp. 11-13).

The opinion cannot be so construed.

Discussion.

The opinion expressly explains that Hartford has abolished all objectionable restrictions and limitations in its leases (Opinion, p. 19). It continues that Hartford can be enjoined in the event that any existing provision in the leases is still objectionable (Opinion, pp. 19, 23). The opinion thereby clearly intends that Hartford is not to re-

possess its leased machines except for some breach by the lessee such as non-payment of royalties or refusal by a lessee to renew its lease; and it is difficult to understand how the Government can claim that the opinion could be interpreted otherwise.

V. Alleged Suppressed Machines.

Petition.

The Government suggests that the opinion permits the defendants to refuse to lease or license so-called suppressed machines (Petition, pp. 13-14).

The Government is again in error.

Discussion.

The opinion requires the defendants to lease or license feeders, formers, lehrs and stackers of the classes each now manufactures (Opinion, p. 23). The so-called suppressed machines are in large measure copies of Hartford machines employing Hartford inventions (Hartford Main Brief, pp. 20-21, 24-25, 36-38) and thus are machines of the same class as Hartford machines which must be licensed.

Hartford has no intention of asserting—and could not reasonably assert—that either the machines it now distributes or the so-called Howard and like machines are not to be covered by the judgment in the manner outlined by this Court.

VI. Machinery Manufacturers.

Petition.

The Department alleges that the opinion permits Hartford and Lynch to monopolize the glassmaking machinery business (Petition, pp. 15-16).

The opinion permits no such result.

Discussion.

The opinion retains the provisions of Paragraph 24 (b) in so far as it requires the defendants to lease or license "to make, have made for it, and to use". It then provides for changes in the other portions of the Paragraph (Opinion, pp. 21-24).

The opinion thereby permits any licensee to have machines "made for it" by any machinery manufacturer it desires. Hartford, it will be recalled, is not a machinery manufacturer. With Hartford ordered to permit its licensees to have its machines "made" by any machinery manufacturer, or to "make" the machines themselves, the field is open to all machinery manufacturers to solicit the licensees' machine business. No monopoly by any machinery manufacturer could possibly ensue.

Neither the Department in its draft of judgment nor the lower court in entering the judgment sought to impose any affirmative obligation upon the defendants to grant a license "to sell" their machines. The judgment entered does not so provide and the Department has not appealed from that judgment. The Department cannot now belatedly seek to impose that obligation.

Any requirement that defendants be required to license the sale of their machines would most gravely impair the value of their patents. There is serious doubt whether a patentee—who sells his patented machine—may continue to collect royalties thereon. Hartford certainly could not survive as an engineering and research company if its machines were sold outright, for the return upon the few yearly sales of these machines would be inadequate to finance modern engineering and development (Joint Brief on Reargument, pp. 76-77). This Court has in another connection recognized that the defendants should

not be forced into the outright sale of their machines (Opinion, pp. 17-18).

VII. Reasonable Royalties.

Petition.

The Government seeks to construe the opinion as permitting the defendants to license at unreasonable royalties (Petition, pp. 17-19).

The opinion cannot be so construed.

Discussion.

The opinion initially states that the royalties to be charged should be standard royalties (Opinion, p. 23). We assume that this was to avoid the necessity for court approval in advance of each and every royalty specified and to insure the absence of discrimination. The opinion then continues with a proviso that if a claim should be made that the royalties being charged are unreasonable, the court may pass upon the question and reduce excessive royalties to a fair and reasonable basis (Opinion, pp. 23-24).

Unreasonable royalties thus cannot be charged.

Two statements made by the Department, in discussing this question of royalties, require correction as follows:

In the first place, the opinion states that "Government counsel did not assert, or attempt to prove, that these [Hartford] royalties were not reasonable in amount" (Opinion, p. 14. See also p. 19). The Government incorrectly challenges this statement (Petition, pp. 17-18). Government counsel expressly acknowledged below that: "I didn't say the royalties are high. We never attacked their royalties" (R. VII, 5331).

The Department here is seeking to reargue again its attempted repudiation of its position below—although such repudiation is foreclosed by the opinion of this Court (Opinion, p. 14). For a complete answer to the Department's present attack upon the reasonableness of Hartford's royalties and an analysis of Hartford's income as set forth in the record, see Hartford's Reply Brief on Reargument, pages 19-21.

In the second place, the opinion provides that Hartford may continue to charge its standard royalties instead of specifying an individual royalty rate for each invention, each service and each phase of Hartford's research and development (Opinion, p. 23). Hartford's standard royalties are four in nature—respectively for feeders, formers, lehrs and stackers—and these royalties together bear the cost of Hartford's service, research and development. The Government erroneously challenges the ruling of the Court that Hartford may continue to charge such standard royalties (Petition, pp. 18-19).

The obligation to license in Paragraph 24 of the judgment is to license machines with accompanying methods, parts and improvements of the four classes repeatedly referred to in the Court's opinion. These machines are to be made available to all users. Any requirement that Hartford provide multiple variations of its royalty rates to licensees would not eliminate any so-called restraints upon those classes of machines, but instead would involve an expansion of the obligation to license as written in Paragraph 24. The Government never sought such a broader obligation below and cannot be heard here for the first time to seek such an expansion of the judgment.

Any attempt to apply the test of reasonable royalties to individual patents, it is clear, would tend to promote confusion in the industry and would inevitably bring about

discriminations between licensees, suspicion of favored treatment, wrangling over the relative value of claims in individual patents and continuous litigation.

An impossible administrative burden would be imposed upon the lower court—and upon this Court on appeal—if the courts were required to determine the value of each present and future patent owned by Hartford, each form of service provided by it and each phase of research and development undertaken by it, and then were compelled to fix a reasonable royalty on each permutation and combination of these factors desired by each licensee. Complicating this task would be the judgment prohibition against preferences and discriminations. Hartford nearly went bankrupt in early years when it was enmeshed in litigation; and the Department's suggestion would seem to require Hartford to be so enmeshed again.

These multiple permutations and combinations—varying from licensee to licensee and changeable by each licensee from time to time—moreover would make it impossible for Hartford to know with any certainty the size of its income. Yet without reasonable certainty of income, Hartford could not operate, because it could not afford to make commitments of the magnitude required for modern research and development unless it were sure it could finance those commitments. It will be remembered that research work does not become fruitful or of benefit to the industry except after great expenditures over long periods of time.

The licensees, the Department and the lower court joined below in the belief that Hartford must be preserved as a service, research and development company, both to provide the small manufacturer with facilities otherwise available only to the large companies and to aid all glass container manufacturers in their competitive struggle with

tin, plastic, paper and other containerware (Hartford Reply Brief on Reargument, pp. 2-8). It would defeat this purpose if the financial return to Hartford from its licensed and leased machinery were not sufficient to permit it to carry on its research, development and service undertakings.

VIII. Dissolution.

Petition.

The Government, in conclusion, seeks an alleged clarification of this Court's opinion to permit the dissolution of Hartford (Petition, pp. 20-22).

The Government here manifests the apparent underlying purpose of its petition, which is to achieve the complete repudiation of—rather than mere clarification of—basic rulings in this Court's opinion.

Discussion.

The Government, the licensees and the lower court were in agreement below that Hartford should be preserved in the interest of free and vigorous competition (Hartford Reply Brief on Reargument, pp. 2-8).

The lower court squarely ruled that:

> "Dissolution is not resorted to" (R. Op. Vol. 160).

The Government on appeal conceded before this Court that dissolution of Hartford would be "impractical" (Government Main Brief, p. 335), that the lower court had considered it "inadvisable" (*Id.*, p. 336), and that the value of Hartford to small licensees had been an apparent factor in influencing the court in arriving at this decision (Government Brief on Reargument, p. 83). The Department, of

course, did not appeal from the failure of the lower court to dissolve Hartford.

The Government in fact twice opposed before this Court the very proposal it now makes to divide Hartford into competing companies—emphasizing the obvious difficulties of breaking up a company whose assets consist of over-lapping patents and an integrated research and engineering organization. It stressed that such a company was not to be confused with the ordinary case of a commercial or manufacturing company whose physically separable properties permitted ready division (Government Main Brief, p. 335, and Brief On Reargument. p. 83). Break up an integrated research program, of course, and you destroy it; the parts cannot live severed from each other.

This Court has now ruled, in view of these and other considerations, that Hartford should not be dissolved, but instead should be required—under proper safeguards—to continue to serve the industry.

The Government by its present petition, in effect, is seeking permission for the lower court to set aside this Court's opinion and to substitute therefor an "impractical" and "inadvisable" dissolution. This appeal, and the remedies so carefully worked out by the Court, are to be totally circumvented and ignored. Hartford is not to live as a creative agency of the industry, in conformity with the rules laid down by this Court, but instead is to be broken into meaningless parts which could not possibly survive.

The Department, in short, would seem to propose a "rule or ruin" policy; since it cannot obtain all it sought in this Court it will decline to accept the Court's rulings and seek to replace them with a destructive dissolution regardless of the resulting unfortunate consequences.

Surely the directives of this Court are not thus to be set aside.

The Department does suggest, as an alternative, that the lower court be authorized to dissolve Hartford in the future, if not immediately. The lower court had reserved this power but had not seriously contemplated its use (Joint Brief On Reargument, p. 66, and Hartford Reply Brief On Reargument, p. 7). This alternative, however, has the same vices as the proposal for Hartford's immediate dissolution. If Hartford faithfully fulfills the directives of this Court, it should not be forced to live in perpetuity in fear of a proceeding for dissolution. How could Hartford retain its employees, or obtain credit, or do business, if it had to explain to those with whom it deals that even though it does what this Court orders it to do, it may nevertheless wake up some day and find itself out of business?

Hartford has stated to this Court during the oral argument that it is ready and willing to act as the "bona fide agent and servant" of the industry—to adopt the language of this Court in the *St. Louis Terminal* case, 224 U. S. 383, 410, and that of the lower court in the *Great Lakes Towing* case, 208 Fed. 733, at 747—in the manner specified by this Court.

It will be impossible for Hartford to fulfill this function, however, if its past income is confiscated by returning it as a windfall to licensees (Petition, Point I), its future income destroyed by forcing it to finance its engineering and research from unprofitable licenses to sell its machines (*Id.*, Point VI), the administration of its licensing and leasing hopelessly complicated by permutations and combinations of individual patents, services and phases of research (*Id.*, Point VII) and its very existence placed in jeopardy by the threat of dissolution (*Id.*, Point VIII).

We think that the opinion is entirely clear that such cumulative and destructive requirements were not intended by the Court.

Conclusion.

The opinion of this Court imposes upon Hartford and the other defendants grave responsibilities to insure a healthy and competitive glass container industry.

Hartford is fully aware of these responsibilities. It intends to fulfill them. There is no disposition on its part to seize upon warped constructions of this Court's opinion for the purpose of retreading paths frowned upon by the Court. Rather there is a strong and impelling desire by it to join with the Department, and the other defendants, in a sincere effort to work out—within the framework of this Court's opinion—a fair and workable judgment, and thereafter to demonstrate, by its operations under the judgment, the wisdom of the rulings by this Court in this historic litigation.

Respectfully submitted,

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February 9, 1945.